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CALIFORNIA STATE TREASURER PHIL ANGELIDES

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VETERANS, NATIONAL GUARD MEMBERS AND FAMILIES JOIN STATE TREASURER ANGELIDES IN LAUNCHING STATEWIDE DRIVE TO PROVIDE HEALTH CARE FOR CALIFORNIA NATIONAL GUARD TROOPS

As California Guard Members Face Life-Threatening Violence in Iraq, Legislative Vote Nears on Angelides' Proposal to Provide Health Care to National Guard Troops and Their Families

SAN FRANCISCO – As American troops, including thousands of California National Guard members, continue to risk their lives in Iraq, military veterans, California National Guard members and their families joined State Treasurer Phil Angelides today to launch a statewide drive to pass legislation that will provide basic health insurance for California National Guard members and their families at no cost to ordinary taxpayers. Today marks the start of a statewide effort by Treasurer Angelides, military veterans and Guard members to build support for the legislation, which is scheduled to be voted on in the California Assembly next week.

Sponsored by Angelides and authored by Assemblymember Lloyd Levine (D-Van Nuys), AB 1525 will provide a refundable income tax credit of up to \$4,000 a year for health insurance premiums to cover Guard members and their families, paid for by closing an unjust corporate tax loophole. Currently, one in five National Guard members has no health insurance, a figure that rises to 40 percent for junior enlisted men and women, according to the U.S. Government Accountability Office.

“It is shameful to ask these men and women to protect us if we won’t protect them against the financial risk of sickness and injury,” Treasurer Angelides said. “It is both patriotic and fair to salute our troops by giving them and their families access to basic, affordable health care.”

“A new generation of soldiers are serving our nation,” said Assemblymember Levine. “It is simply unacceptable that some of these men and women will lack basic health care when they return home.”

Since the terrorist attacks of September 11, the men and women of the California National Guard have been called to the front lines to defend America. They have stood guard against terrorist attacks on our bridges, patrolled the skies against airborne attacks, and shipped out by the thousands to fight in Afghanistan and Iraq. National Guard members have been called into combat for the first time since the Korean War, and nearly half of U.S. forces in Iraq are National Guard or Reserve members called to active duty. More than 2,000 Americans have



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given their lives in Iraq and Afghanistan, including twelve Guard members from California. Approximately 6,100 California National Guard members are currently serving overseas in active duty.

But while they volunteer to protect their state and country, thousands of California National Guard members have been left without health insurance – unprotected against the financial risk of disease and injury. National Guard members receive health insurance for themselves and their families while they serve on active duty. But before they are activated, they have health insurance only if they are covered on their civilian jobs. After they return from active duty, they have health insurance only if they have it on the job or are able to buy into TRICARE, the military health care system. Benefits for California's National Guard members are among the nation's worst and the California Guard is facing difficulty recruiting new members.

This bill will provide California National Guard members a refundable tax credit to reimburse health insurance premiums paid by Guard members – enough money to enable an uninsured member to buy a typical individual health insurance plan. The credit will also cover a substantial portion of the cost of family coverage for uninsured Guard members, and could be used to cover the employee share of health plan premiums for National Guard members who have existing coverage through their civilian jobs or for buying into TRICARE.

Treasurer Angelides was joined today by Lt. Colonel John Haramalis, President, National Guard Association of California; Wade Sanders, Former Deputy Assistant Secretary of the Navy, a distinguished combat veteran and retired Navy Captain; California National Guard members and their families; and other military veterans.

“Many National Guard members are struggling to provide for their families, holding civilian jobs and volunteering for Guard service in addition. We shouldn't also have to worry about being able to provide adequate health care for our families,” said Lt. Colonel John Haramalis, President, National Guard Association of California. “I’m proud to stand with Treasurer Angelides who is working to protect Guard families who defend our state and nation.”

This bill will not result in any cost to California's General Fund or to ordinary taxpayers. The tax credit will be paid for by closing the “nowhere income” corporation tax loophole. Currently, this unjustifiable loophole in the tax code allows multi-state and multination corporations to create “nowhere income” that escapes taxation in any state. Closing the “nowhere income” loophole will provide an estimated \$55 million in FY 06-07, and \$60 million in FY 07-08, enough revenue to offset the health insurance credit for California's National Guard troops.

Angelides' proposal complements efforts by members of Congress to allow all members of the National Guard to purchase insurance through TRICARE, the military health plan that covers active military members and their families. Senators Hillary Rodham Clinton (D-New York) and



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Lindsey Graham (R-South Carolina) are carrying legislation to allow National Guard members to buy into TRICARE, and the House Armed Services Committee added a similar measure to the 2006 defense authorization in April, but it was struck from the bill by Chairman Duncan Hunter (R-California). If Congress approves a buy-in measure for National Guard members, AB 1525 tax credits will enable California National Guard members to pay for the coverage.

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More information on the legislation is available on the Treasurer's website:

www.treasurer.ca.gov.

OFFICE OF THE TREASURERP. O. BOX 942809
SACRAMENTO, CA 94209-0001**Honoring the Service and Sacrifice of the California National Guard**
Giving Guard Members a Tax Credit for Health Insurance

Since the terrorist attacks of September 11, the men and women of the California National Guard have been called to the front lines to defend America. They have stood guard against terrorist attacks on our bridges, patrolled the skies against airborne attacks, and shipped out by the thousands to fight in Afghanistan and Iraq. Nearly half of U.S. forces in Iraq are National Guard or Reserve members called to active duty.

But while they volunteer to protect their state and country, thousands of California National Guard members have been left without health insurance – unprotected against the financial risk of disease and injury. National Guard members receive health insurance for themselves and their families while they serve on active duty. But before they are activated, they have health insurance only if they are covered on their civilian jobs. After they return from active duty, they have health insurance only if they have it on the job or buy into TRICARE, the military health system. One in five members of the National Guard has no health insurance, a figure that rises to 40 percent for junior enlisted men and women, according to the U.S. Government Accountability Office. It is shameful that so many of those who sacrifice for their country are uninsured.

State Treasurer Phil Angelides and Assemblymember Lloyd Levine propose that California honor the service and sacrifice of California National Guard members by enabling them to buy health insurance. Treasurer Angelides is sponsoring AB 1525, authored by Assemblymember Levine, which will give the 21,000 members of the California National Guard a refundable income tax credit of up to \$4,000 a year for health insurance premiums to cover themselves and their families when they are in the National Guard but not on active duty. The bill finances the tax credit to National Guard members by closing the “nowhere income” loophole in California’s corporate tax law, which allows multistate and multinational corporations to escape taxation in any state on income from certain transactions. The revenues generated from the closure of the nowhere income tax loophole will fully cover the cost of the National Guard health care insurance tax credit. This bill will not result in any cost to California’s General Fund or to ordinary taxpayers.

Standing by the National Guard

California and America are asking more of the National Guard – its members and their families – than ever before. National Guard units have been called into combat for the first time since the Korean War, and many Guard members have been sent to Iraq for extended and repeated tours of active duty. Twelve Guard members from California have been killed in Afghanistan and Iraq and approximately 6,100 more are currently serving overseas in active duty. The war has revealed how much the nation depends on the National Guard to protect the nation’s security. And it has exposed the gap between the risks we ask National Guard members to take and the benefits we provide for their service.

Having so many uninsured men and women in the ranks of the National Guard is not only a national scandal; it is a drag on the nation’s military readiness. The Pentagon has reported that 7 percent of Reserve and National Guard members called to active duty are medically unfit for duty, in part because many are receiving no regular medical care.

California can address that scandal by helping all California National Guard members buy health insurance. The refundable income tax credit in AB 1525 will provide up to \$4,000 a year to National Guard members for health insurance premiums they have paid to cover themselves or immediate family. The credit will enable an uninsured National Guard member to buy a typical individual health insurance plan, and will cover a substantial portion of the cost of family coverage. The credit could also be claimed by National Guard members to cover their share of health plan premiums for employer-purchased coverage at their civilian jobs or for buying into TRICARE, the military health care system. The average cost of family coverage through employer health plans in California is about \$10,000, with employees paying, on average, \$2,600 in premiums, according to the Kaiser Family Foundation.

By giving all National Guard members access to health care, California can honor their service and do its part to improve the readiness of the force. It will also make service more attractive at a time when the Pentagon is having a difficult time meeting its recruiting targets for the nation's All Volunteer Force. Last month, the Army fell 29 percent short of targets for recruiting new members of the Army National Guard.

The health insurance tax credits in AB 1525 complement bipartisan efforts in Congress to make health insurance available to all National Guard members. While National Guard members are serving on active duty, they and their families are covered under TRICARE, the military health plan. But many National Guard members have no health insurance either before they are called to active duty or after they return.

Congress began to fill that hole last year. Under the 2005 defense authorization bill, National Guard members who complete tours of active duty may now buy into TRICARE. They may buy one year of coverage for each 90 days of active duty they have served, up to a maximum of eight years, provided they remain enrolled in the service.

Some members of Congress are also seeking to allow National Guard members to buy into TRICARE before they are activated. Hillary Rodham Clinton (D-New York) and Lindsey Graham (R-South Carolina) are carrying a TRICARE buy-in measure in the Senate. The House Armed Services Committee added a similar measure to the 2006 defense authorization bill last month, but Chairman Duncan Hunter (R-California) struck it from the bill under a rarely used budget control rule. If Congress eventually approves the broader buy-in, California National Guard members could use AB 1525 tax credits to pay for TRICARE coverage.

Closing the “nowhere income” loophole

Under AB 1525, California will pay for the National Guard health insurance credits by removing an unjustifiable loophole in the tax code that allows multistate corporations to create “nowhere income” that escapes taxation in any state.

Under Section 338 of the Internal Revenue Code, a corporation that sells a subsidiary to another company may elect, for tax purposes, to treat the sale of stock in the subsidiary as a sale of assets. But California alone allows corporations to make a different Section 338 election for state tax purposes than for federal. This separate election creates the opportunity for “nowhere income” that escapes taxation in any state.

Example: Corporation A, domiciled in California, sells to Corporation B a subsidiary that does business only in Wisconsin. For federal purposes, the buyer and seller treat the transaction as a stock sale. But Corporation A takes a separate Section 338 election for California tax purposes, treating the transaction as sale of assets. Wisconsin, acting under the rules assigning corporate income among states, considers the capital gain from the sale of the stock as non-business income entirely allocated to California, the home of Corporation A, and therefore not taxable in Wisconsin. But for California tax purposes, Corporation A elects to treat the transaction as a sale of assets, with the gain considered business income. Since the Wisconsin subsidiary does no business in California and has no sales, workers or property here, the business income generated from the gain on the sale of assets is not subject to taxation in California. Thus the corporation, thanks to the separate election, escapes paying taxes on its income from the sale in either state.

The “nowhere income” loophole benefits only multistate corporations; of the 520,000 corporations that file California tax returns, only about 56,000 are multistate businesses. It is unfair for large multistate corporations to create “nowhere income” that totally escapes state taxation, thus shifting the tax burden to smaller California-only firms and to individual taxpayers.

No cost to taxpayers

Closing the “nowhere income” loophole would increase revenues by \$55 million in 2006-07 and \$60 million in 2007-08, according to Franchise Tax Board estimates. The State Treasurer's Office estimates that the National Guard health insurance credit would provide \$56 million in tax relief to Guard families in 2006-07. By closing the “nowhere income” loophole, AB 1525 strikes a blow for tax fairness while helping the men and women who defend our country and strengthening the California National Guard for the future.